

**"(b) CALCULATION OF PARTICIPATION RATES.—****"(1) ALL FAMILIES.—**

**"(A) AVERAGE MONTHLY RATE.—**For purposes of subsection (a)(1), the participation rate for all families of a State for a fiscal year is the average of the participation rates for all families of the State for each month in the fiscal year.

**"(B) MONTHLY PARTICIPATION RATES.—**The participation rate of a State for all families of the State for a month, expressed as a percentage, is—

**"(i)** the number of families receiving assistance under the State program funded under this part that include an adult or a minor child head of household who is engaged in work for the month; divided by

**"(ii)** the amount by which—  
**"(I)** the number of families receiving such assistance during the month that include an adult or a minor child head of household receiving such assistance; exceeds

**"(II)** the number of families receiving such assistance that are subject in such month to a penalty described in subsection (e)(1) but have not been subject to such penalty for more than 3 months within the preceding 12-month period (whether or not consecutive).

**"(2) 2-PARENT FAMILIES.—**

**"(A) AVERAGE MONTHLY RATE.—**For purposes of subsection (a)(2), the participation rate for 2-parent families of a State for a fiscal year is the average of the participation rates for 2-parent families of the State for each month in the fiscal year.

**"(B) MONTHLY PARTICIPATION RATES.—**The participation rate of a State for 2-parent families of the State for a month shall be calculated by use of the formula set forth in paragraph (1)(B), except that in the formula the term 'number of 2-parent families' shall be substituted for the term 'number of families' each place such latter term appears.

**"(3) PRO RATA REDUCTION OF PARTICIPATION RATE DUE TO CASELOAD REDUCTIONS NOT REQUIRED BY FEDERAL LAW.—**

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**"(A) IN GENERAL.—**The Secretary shall  
lations for reducing the minimum participation

rate otherwise required by this section for a fiscal year by the number of percentage points equal to the number of percentage points (if any) by which ~~h—~~

"(i) the average monthly number of families receiving assistance during the immediately preceding fiscal year under the State program funded under this part is less than

"(ii) the average monthly number of families that received aid under the State plan approved under part A (as in effect on September 30, 1995) during fiscal year 1995.

The minimum participation rate shall not be reduced to the extent that the Secretary determines that the reduction in the number of families receiving such assistance is required by Federal law.